

## Practical Tips: Disputes over Remedies for Improperly-Applied and Granted Interim Measures

Assume, for example, a preliminary injunction, that enjoined the defendant from manufacturing and selling a product based on the plaintiff's claim of patent infringement, was later proved wrong. How, in China, would the defendant be fully compensated for harms inflicted due to the wrongfully-granted preliminary injunction? This article<sup>i</sup> first summarizes the laws relating to interim measures of intellectual property rights, and then provides practical tips for attorneys who handle a civil action seeking remedies for improperly-applied and granted interim measures.

### APPLICABLE LAWS RELATING TO INTERIM MEASURES

Disputes over remedies for improperly-applied and granted interim measures refer to disputes over compensation for damages generated due to the respondent's loss caused by the applicant's failure in prosecution or application mistake after a people's court takes interim measures upon the application of the intellectual property right holder<sup>ii</sup>. Generally speaking, the IPR interim measures mainly include ordering the stop of the relevant act (injunction), property preservation and evidence preservation.

*The Civil Procedure Law of China*, in Article 81, provides "under circumstances where there is a likelihood that evidence may be destroyed or lost or difficult to be obtained later, the parties may in the process of proceedings apply to the people's court for preservation of the evidence). The people's court may also on its own initiative take measures to preserve such evidence. In case of emergencies in which the evidence may be lost or difficult to be obtained afterwards, the interested party may, before instituting a lawsuit or applying for an arbitration, apply to the people's court in the place where the evidence is located or the person applied has his domicile, or the people's court which has jurisdiction over the case for preservation of evidence."

*The Civil Procedure Law of China*, in Article 100, provides "if the execution of a judgment becomes difficult or damage has been caused to the parties because of the acts of one party or for other reasons, the people's court may, at the application of the other party, rule the adoption of measures for preservation of its property, order it to conduct or not to conduct certain acts. In the absence of such application, the people's court may of itself, when necessary, order the adoption of measures for preservation. In adopting preservation measures, the people's court may enjoin the applicant to provide corresponding security; if the applicant fails to do so, his application shall

be overruled. After receiving an application, the people's court must, if the case is urgent, make an order within 48 hours; if the order for the adoption of preservation measures is made, the execution thereof shall begin immediately."

*The Civil Procedure Law of China*, in Article 101, provides "any interested party whose lawful rights and interests would, due to urgent situations, suffer irretrievable damage without immediate application for preservation measures, may, before the initiation of a lawsuit or the application of arbitration, apply to the people's court in the place where the preserved property or the applied person's domicile is located or to the people's court having jurisdiction over the case for the adoption of preservation measures. The applicant shall provide security; if he fails to do so, his application shall be overruled. After receiving an application, the people's court must make an order within 48 hours. If the court orders the adoption of preservation measures, the execution thereof shall begin immediately. If the applicant fails to bring an action or apply for arbitration according to law within 30 days after the people's court has adopted preservation measures, the people's court shall cancel the preservation."

In addition, in respect of the application for interim measures of intellectual property, special laws in intellectual property and the juridical interpretations from the Supreme People's Court of China also articulate definite provisions.

For example, *the Patent Law of China*, in Article 66, provides "where a patentee or interested party has evidence to prove that someone else is committing or is going to commit an infringement upon the patent right, and its (his) lawful rights and interests will be damaged and are difficult to be remedied if said infringement is not stopped in time, it or he may, prior to initiating a lawsuit, apply to the people's court for taking such measures as ordering the stop of the relevant act...if the

applicant fails to lodge a lawsuit within 15 days after it takes such measures as ordering the stop of the relevant act, the people's court shall lift the said measure. Where there are errors in an application, the applicant shall compensate the party against whom an application is filed for the losses caused by the stop of the relevant act". Article 67.1 provides "To stop a patent infringement, the patentee or any interested party may apply to the people's court for preserving the evidence when such evidence is likely to be destroyed and hard to be obtained again."

*The Trademark Law of China*, in Article 65, provides "if the registrant of a trademark or an interested person has the evidence to prove that another person is conducting or is going to conduct the acts infringing upon its right to the exclusive use of a registered trademark, and if the acts are not stopped promptly, irreparable damages will occur to its legal rights and interests, it may apply to a people's court for an order of measures for stopping relevant acts and for attachment". Article 66 provides "in order to stop the infringing acts, the registrant of a trademark or the interested person may apply to a people's court for preservation of evidence before filing the suit under the circumstances that the evidence may get lost or will be hard to acquire afterwards".

*The Copyright Law of China*, in Article 50.1, provides "a copyright owner or owner of a copyright-related right who has evidence to establish that another person is committing or will commit an act of infringing his right, which could cause irreparable injury to his legitimate rights and interests if the act is not stopped immediately, may apply to the People's Court for ordering cessation of the related act and for taking the measures for property preservation before instituting legal proceedings". Article 51.1 provides "for the purpose of preventing an infringing act and under the circumstance where the evidence could be lost or is difficult to obtain afterwards, the copyright owner or the owner of a copyright-related right may apply to the People's Court for evidence preservation before initiating legal proceedings".

#### **A CAUSE OF ACTION FOR SEEKING REMEDIES**

However, where the respondent's loss is caused by the intellectual property right holder's application for the above interim measures, the respondent may initiate a lawsuit to a people's court having jurisdiction with a request for compensation from the right holder, and may also file a request for damage compensation in the infringement lawsuit initiated by the right holder, so that the

people's court shall jointly deal with it. It is definitely stipulated in Several Provisions on Issues Concerning the Application of Law to Pre-litigation Injunctions to Cease Patent Infringements by the Supreme People's Court, Interpretation on Issues Concerning the Application of Law to the Pre-litigation Injunctions to Cease Infringement on Exclusive Rights to Use Registered Trademarks and Preservation of Evidence by the Supreme People's Court, and Interpretation on Several Issues Concerning the Application of Law in the Trial of Civil Cases of Dispute over Copyright by the Supreme People's Court.

Where the damage to the respondent is caused due to the application for interim measures in a litigation on infringement of intellectual property except for patent, trademark and copyright, the respondent files a suit with the request for compensation to a people's court having the jurisdiction by referring to and applying the provisions of the above laws and juridical interpretations. Certainly, according to the consideration of the Civil Procedure Law on the establishment of the interim measure system, the interim measures are not limited to the use in disputes over intellectual property infringement, and can also be extended to disputes over intellectual property contracts, disputes over ownership, disputes over competition and disputes over anti-monopoly and other cases.

In addition, it further needs to be noted that where the losses to a third party are caused due to the application for measures on the customs protection of IP rights, the owner of intellectual property rights also undertake the corresponding legal liability. Article 28.2 of the Regulation on the Customs Protection of IP Rights provides "where, after an owner of Intellectual Property Rights has requested customs to impound goods suspected of infringing upon rights, customs cannot confirm whether the impounded goods suspected of infringing upon rights has infringed upon the Intellectual Property Rights of the owner of Intellectual Property Rights, or the people's court rules that the goods have not infringed upon the Intellectual Property Rights of the owner of Intellectual Property Rights, the owner of Intellectual Property Rights shall be liable for compensation according to law."

In Provisions on Cause of Action of Civil Cases, the Supreme People's Court specifically lists five types of common disputes over liability for damage caused by applications for interim measures as the fourth-tier causes of action under "disputes over liability for damage incurred by applications for interim measures of IP rights"

- disputes over liability for damage incurred by applications for the pre-litigation injunctions to cease infringement on patent rights;
- disputes over liability for damage incurred by applications for the pre-litigation injunctions to cease infringement on exclusive rights to use registered trademarks;
- disputes over liability for damage incurred by applications for the pre-litigation injunctions to cease infringement on copyrights;
- disputes over liability for damage incurred by applications for the pre-litigation injunctions to cease infringement on the right to new plant varieties; and
- disputes over liability for damage incurred by applications for measures on the customs protection of IP rights.

Certainly, the disputes over liability for damage incurred by applications for interim measures on other types of IP rights fail to be clearly listed in the above fourth-tier causes of action, and the third-tier causes of action can uniformly temporarily be applicable thereto.

Often, in recent years, plaintiffs in civil cases relating to intellectual property rights often file an application for interim measures to maintain their legitimate rights and interests. However, due to the improper application for interim measures of intellectual property rights, disputes seeking remedies arise after. The former plaintiffs, now defendants, become liable for the wrong application for interim measures. In representing clients for the disputes over liability for damage incurred by applications for interim measures on IP rights, the lawyers shall pay attention to the following issues:

## PRACTICAL TIPS

### 1. Where is the proper venue

The territorial jurisdiction, for a dispute seeking remedies for improperly-applied and granted IPR interim measures, is proper with a people's court that has jurisdiction over said liability disputes, or the people's court who heard the corresponding infringement lawsuit filed by the IPR holder and who had granted the interim measures. Accordingly, the venue, according to the relevant provisions of the Civil Procedure Law, shall be under the jurisdiction of a people's court in the place where the infringement act occurs and the defendant has his domicile. Therefore, "the people's court that has jurisdiction" shall be the court in the place where the infringement act occurs and the defendant has his domicile. "The place where the infringement act occurs" as described herein can be understood as the place where the IPR holder applies for interim

measures.

### 2. When does the clock start ticking for statute of limitations

A statute of limitations for disputes over liability for damage due to the applications for IPR interim measures is two years, which shall be started from the time when the plaintiff (the respondent) knows or should have known that his rights are infringed. I believe the limitation should run when the respondent receives the final judgment and verdict (rather than interim measures) after the trial of the infringement case is closed, which shall be the time that damages to the respondent is incurred by improperly-applied and granted IPR interim measures and the respondent becomes to know.

### 3. Whether should the remedies for improperly-applied and granted IPR interim measurements be based upon bad faith

No, the China's Civil Procedure Law, or each special law of intellectual property rights, or the relevant juridical interpretations of the Supreme People's Court, when involving the undertaking of liability for the damage due to the application for IPR interim measurements, do not require the IPR holder to have subjective malice. In the juridical practice, as long as there is evidence to prove that the IPR right holder has a mistake in the application for the interim measure which results in the respondent's loss, the IPR holder shall undertake the corresponding liability.

At present, neither the laws nor the relevant juridical interpretations of the Supreme People's Court definitely stipulate the specific circumstances of improperly-applied and granted interim measures. I believe that circumstances of the improper applications for interim measures mainly include the mistake of objects applying for preservation, if the property or evidence of a third party applies for preservation, the amount of the property applying for preservation exceeds the amount claimed thereby, and the evidence applying for preservation is not the evidence for infringement involved in the case, etc. Provided that the applicant does not obtain the support from the court for his claims, or withdraws or loses the lawsuit due to the absence of the right base, the application for interim measures shall also be deemed to be wrong, which is conformity with the original intention of the establishment of the system. Therefore, when applying for IPR interim measures, the applicant shall have a basic judgment on the litigation outcomes of the case and shall predict the consequences caused by application mistakes to some extent.

#### 4. What can be compensated

Article 6.3 of the Several Provisions on Issues Concerning the Application of Law to Pre-litigation Injunctions to Cease Patent Infringements provides “when determining the scope of the security, the people's court shall consider the sales revenue from, and reasonable costs for the storage, custody, etc. of the product concerned that would be involved in the event of issuance of an injunction to cease the relevant act; the losses and such reasonable costs and expenses as the wages of staff and workers that the respondent may incur from ceasing the relevant act; and other factors”. Certainly, this Article is not directed to the scope of compensation for damage caused due to the application for interim measures, but the scope of the security which the applicant shall provide. However, it can be seen therefrom that once the application mistake causes the respondent’s loss, the applicant shall give the approximate scope of compensation.

I also believe that the scope of

compensation for damage caused due to the application for interim measures shall mainly include direct losses and expected acquirable benefits. The direct losses mainly refer to the direct damages caused by interim measures, such as profit from product sales, reasonable costs for the storage and custody, expenses as the wages of staff and workers, the balance between the loan interest and deposit interest of the preserved amount, etc. The expected acquirable benefits mainly refer to gains having certain determinacy and expectability, i.e. under normal conditions, the parties concerned can expect and may expect the certainly-acquired benefits, and do not acquire these benefits only due to the occurrence of the infringement act. Certainly, it is difficult to prove the conditions conforming to the expected acquirable benefits. In the juridical practice, it is unlikely that this part of losses can be supported by a court, and the lawyers should pay attention to the collection of the relevant evidences for demonstration when handling such cases.

<sup>1</sup>This article excerpts from Strategies and Techniques on Handling Cases of Intellectual Property written by Mr. Xiaobing WANG (China Legal Publishing House, April 2016)

<sup>2</sup>The research institute of the Supreme People’s Court: Handbook of the Regulations on the Cause of Civil Action by the Supreme People’s Court, Law Press, published in 2008, Page 305

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